

Shaping the Future of Long-Term Investing,
Infrastructure and Development

Argentina Infrastructure Public-Private Working Group (IPPWG) Moving from Policy to Implementation Action Plan

Buenos Aires, Argentina 5 April 2017



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REF 010517

IPPWG – Progress to Date

Since its launch in October 2016, the IPPWG has served as a platform to foster an enabling environment for private sector participation in Argentina's leading infrastructure projects.

The IPPWG has primarily focused its efforts on designing recommendations to facilitate infrastructure financing and development in Argentina. Specifically, the group has discussed measures needed to accelerate the development of local capital markets, restore investor confidence, and generate the right regulatory environment for infrastructure investment. Based on its initial findings, the IPPWG has translated some of its recommendations into a concrete **Action Plan**. The plan proposes several areas of priority focus, where the IPPWG believes that tangible change can be achieved in the short-term, helping to speed up Argentina's project delivery process. These include:

- 1. Stimulating the establishment of an infrastructure plan and supporting the development of a priority project pipeline**
 - a. Providing best-practice methodology
 - b. Supporting the creation of a National Project Management Office (NPMO), with a mandate to ensure timely and cost-effective delivery of the government's infrastructure priorities
 - c. Providing case studies of successful public-private partnership (PPP) agencies in the region (i.e. ANI in Colombia, Proinversion in Peru)
 - d. Helping identify some early potential "winning projects" for implementation (even if it is not on the basis of a complete national programme)
- 2. Supporting PPP implementation across different jurisdictional districts** (e.g. province level, City of Buenos Aires)
- 3. Promoting measures to deepen Argentina's capital markets to attract finance for growth, strengthen expertise, and international competitiveness**
 - a. Promoting access to local currency; long-term finance and guarantees
 - b. Promoting an increased role of the pension system and participation of the local mutual fund industry
 - c. Encouraging Banco de la Nación to become the specialist manager to invest ANSES (Administración Nacional de la Seguridad Social) capital in infrastructure projects
- 4. Organizing parallel discussions with a specific focus on the energy sector**
 - a. Sharing global lessons to promote more efficient, effective and sustainable decision-making (applicable for distributed generation, renewable energies, Plan Belgrano, etc.)
 - b. Analyzing ongoing transformations in the electricity sector and identifying future trends in Argentina
- 5. Advertising the attractiveness of Argentina's local capital markets globally with international investors**

Moving from Policy to Implementation: Action Plan

Leveraging the skills and expertise of the World Economic Forum's business and non-business communities, the Action Plan was presented at the World Economic Forum on Latin America Summit, which took place in Buenos Aires on April 5-7, 2017. Participants were invited to further develop the Action Plan and designate champions among its members to ensure implementation.

1. Stimulating the establishment of an infrastructure plan and supporting the development of a priority project pipeline

The Government of Argentina, currently building its first national infrastructure project pipeline, recognizes the need for increased effectiveness and better coordination across ministries and sectors (energy, transport, environment, etc.). As most of the challenges affecting infrastructure projects are likely to become manifest during the implementation phase, the creation of a **National Project Management Office** (or equivalent) would help to improve coordination, standardize processes, and increase transparency. Even best practice program such as [Colombia's Fourth Generation \(4G\)](#) road infrastructure program - face challenges due to missing standards (i.e. arbitration), and delivery failures. In Argentina, a well-resourced project management office (PMO) would bring fundamental change in current public sector project management practices (including the capacity to coordinate, implement and monitor), and consequently ensure timely and cost-effective delivery of the government's infrastructure priorities.

In this context, the IPPWG considers PPP schemes as one additional tool for optimizing project delivery and therefore should be considered as one element of a long-term national infrastructure plan. The group has emphasized the need for a consolidated infrastructure plan, including an explicit PPP project pipeline.

- *Based on previous experience and tried-and-tested methodological frameworks, The Project Management Institute and Deloitte Argentina are offering support in establishing a PMO in Argentina and will follow up with the Ministry of Finance on elaborating a concrete proposal.*

The IPPWG mentioned additional ideas and best practice examples to help Argentina kick-start its project delivery. These include:

- **Provide case studies of successful PPPs beyond the Latin America region** (e.g. UK, Canada and Australia) to bring an additional perspective to the discussion.
- **Set up government-run programs as PPPs:** One illustration of this model is the Port Authority of New York and New Jersey. The Port Authority conceives, builds, operates and maintains infrastructure, including the airport system, marine terminals and ports, and rail transit system. The Port Authority is a financially self-supporting public agency with private sector standards that relies almost entirely on revenues generated by facility users, tolls, fees and rents.

¹ Currently being tested in Indonesia

- **Focus on capacity-building:** Large capacity requirements are needed for any PPP project and Argentina’s public sector still seems to lack that vital resource. Conducting trainings across agencies that spearhead PPPs would be beneficial to the robustness of the process and positively impact the projects.
- **Invest in brownfield projects** by using a new funding mechanism similar to temporary privatization. In such PPP schemes, usually called “asset recycling model” or “Limited Concession Schemes”, the private party leases or buys a facility from the public sector for the purpose of modernizing or expanding it. The private party then manages the facility under contract with a public agency for a period of time that is sufficient to repay the investment and obtain an adequate rate of return. For its part, the public sector uses the capital generated by this transaction to finance a new project or develop another under-performing asset. This asset recycling model appears to avoid most of the issues related to greenfield project financing and, as such, presents tremendous potential for accelerating project delivery in Argentina. However, asset ownership structures may be perceived as an issue, hence respect for various political sensitivities and buy-in from local communities will be essential.
- **Shift focus to smaller PPPs**, from large infrastructure megaprojects with long-term concession periods to shorter-term, smaller PPPs. Those include, for example, refurbishment and enhancement projects, sometimes using a modular/standardized approach for deployment. Usually those projects aim for an increased efficiency/capacity of an existing asset and present lower risk (in terms of predictability, construction risk, etc.). Therefore, these projects are also more suitable for long-term investors (insurance companies, pension funds, etc.). To increase the “visibility” of these smaller projects in the international market, they could be consolidated in a specialized portfolio of “small” projects, managed and guaranteed by a local multilateral development bank (similar to the IFC Managed Co-Lending Portfolio Program (MCP)).
- **Use value capture methods to achieve better infrastructure decision-making and investment.** This can be achieved by focusing on self-supporting (captures some portion of the value it creates to help fund the investment) and synergistic (targeting and attracting other complementary public and private sector investments) infrastructure investment.

Box 1: Paraguay Project Management Office (PPMO)

The recent creation of the Paraguay PPMO² resulted from the country’s need to professionalize its project execution through the development of a new management model and to strengthen its institutional capacity in the mid-term. The PPMO is currently responsible for:

- Gathering needs from different public sector agencies/ organizations at national, state or district level
- Aligning common needs
- Setting right conditions for project implementation (e.g. propose new regulations) and coordinating inter-ministerial project documentation workflow
- Creating and prioritizing project pipeline
- Conducting pre-feasibility studies
- Preparing request-for-proposal (RFP) documents
- Controlling project execution (*)

() Bidding process and infrastructure provider selection process may be performed outside the PPMO by the corresponding agency to gain transparency.*

2. Supporting PPPs implementation across different jurisdictional districts (e.g. province level, City of Buenos Aires)

The City of Buenos Aires has initiated several infrastructure projects to improve urban transit and mobility systems (e.g. Paseo del Bajo project), increase quality of housing, and facilitate access to basic services within selected disadvantaged neighborhoods. Although the majority of those projects are likely to be financed by the public budget (including development loans), the Ministry of Urban Development and Transport of Buenos Aires has expressed interest in designating some selected PPP projects as pilot projects for acceleration.

- *Currently co-financing the Paseo del Bajo project through loan allocation, the Andean Development Corporation is willing to champion the “pilot project selection and review” exercise, supported by the rest of the IPPWG.*

3. Promoting measures to deepen the country’s capital markets to attract finance for growth, strengthen capacity, expertise and international competitiveness

Accelerating infrastructure investments in Argentina will heavily depend on the country’s capacity to develop its local capital market, increase local participation and attract capital from abroad, including long-term players looking for investment opportunities, such as the sovereign and pension funds. To facilitate the distribution of capital across the region, the IPPWG suggests generalizing the use of **funds passport** and **depository receipts/notes** (see Box 2). These provide investors with a more diverse range of investment opportunities, enabling them to better manage their portfolio and meet their investment needs, attract financing for growth in the region, and strengthen the expertise and international competitiveness of financial markets in the region.

² Supported by Deloitte Argentina

Box 2: Latin American Funds Passport and Depositary Receipts/Notes

BRAiN (Brasil Investimentos & Negócios), a not-for-profit organization whose mission is to help create an integrated network of financial hubs in Latin America, increasing capital flows into and among the countries of the region, has been working together with the Inter-American Development Bank (IDB) and the market regulators of the six major Latin American economies – Argentina, Brazil, Chile, Peru, Colombia, Mexico – over the past four years to establish a multilateral arrangement to allow cross-border offering of funds and stock across the region:

- *A Latin American Funds Passport* would facilitate the ability of eligible funds in passport member economies to be offered in other passport member economies in accordance with commonly agreed rules. In other words, a regional funds passport scheme would allow a fund that is registered, authorized and regulated in its domicile country (“home economy”) to be offered in other member countries of the passport agreement (“host economies”), provided its assets are not exclusively from the distributing country. The Funds Passport would be enabled through a framework based on international standards that would seek to harmonize the rules and regulations related to the operational model. The mechanism provides that the regulator of the fund’s country of domicile authorizes and registers the fund and communicates to the other countries about the issuance of the fund in their jurisdictions. The fund shares would be distributed by a local broker or bank in each country under local laws and currency, and the jurisdiction for conflict resolution would also be local, raising the level of investor protection and lowering the cost to businesses. Local regulations would be applicable as well for income tax, negotiation and information reporting.
- The implementation of Latin American depositary receipts and notes (LDRs/LDNs) would allow a corporation to open its capital, issue bonds or make a secondary offering in its home country and at the same time issue depositary receipts or notes destined to several countries of the region. These receipts or notes would be listed and traded in any of the jurisdictions chosen by the company, provided that they form part of the cooperation agreement between the regulators of each country. Through this scheme, companies would not be required to be based in each of the participating countries. With the agreement between regulators, registration in the country of origin would suffice. The depositary receipts or notes would be negotiated in each country under local laws and currency, and the jurisdiction for conflict resolution would also be local, raising the level of investor protection and lowering the cost to businesses. Local regulations would be applicable as well for income tax, negotiation and information reporting

4. Organizing parallel discussions with a specific focus on the energy sector

The group welcomed the progress made in the energy sector, mainly illustrated by the renewable energy programme RenovAR (two projects of 1GW and 1.3GW awarded last year). However, to align with the Latin America standards, additional efforts are needed. RenovAr 2.0 will, among others, necessitate better pre-screening of projects (increased quality in project preparation), solutions to mitigate permitting risks, and mechanisms to overcome some of the most pressing tax issues (i.e. inflation on income tax). The programme will also require better coordination between different ministries (that could be facilitated by the PMO or equivalent), consolidated plan for renewable energy and standardized implementation processes and methodology.

The group has also pointed at the undergoing transformation of the **electricity landscape**, as technology and innovation disrupt traditional models. The World Economic Forum and its partners have examined three major trends affecting the electricity grid: **electrification, decentralization and digitalization**³ and formulated recommendations that aim to accelerate the deployment of these grid edge technologies and the economic and societal benefits they bring. As an illustration, the adoption of electric vehicles and related infrastructure could rapidly open new opportunities for PPPs in Argentina (even if it is not yet commercially viable and thus requires initial public intervention). However, some factors such as regulation, infrastructure, stakeholder engagement (such as consumers and trade unions) and new business models will be essential to unlocking significant opportunities and deal with the challenges of this transformation.

- *The Forum will continue with this work and collaborate with various countries to examine the adoption of grid edge technologies in emerging markets and implementation of the recommendations in greater depth. A proposed next step is to discuss the grid edge transformation and the opportunities for Argentina and eventually define a roadmap for cooperation during 2017-2018.*

5. Advertising the attractiveness of Argentina’s local capital markets globally with international investors

Several initiatives are currently supporting and encouraging the promotion of Argentina’s capital markets abroad. In addition to the Latin American Funds Passport and Depositary Receipts/Notes (see Box 2), some private sector-led initiatives aim at connecting key market players in Argentina with international investors. Among those, the LatAm Desk allows sharing country-specific content and connects the local and international community to increase information flow and, therefore, strengthen investors’ confidence.

- *Thomson Reuters expressed interest in providing temporary ad hoc services or free-of-charge support to help the implementation of one (or several) items of the above action plan.*

³ The Future of Electricity New Technologies Transforming the Grid Edge http://www3.weforum.org/docs/WEF_Future_of_Electricity_2017.pdf

⁴ Thomson Reuters Eikon – LatAm Desk

Summary and Next Steps

In the context of growing public commitment to more efficient and standardized project delivery in Argentina, the IPPWG is keen to collaborate with Argentina's public agencies to accelerate the implementation process. For this effort to be successful, active public sector participation will be key. In this regard, the proposed Action Plan is expected to be further developed through an ongoing dialogue with the Government of Argentina.

The outcomes resulting from the implementation of the plan will be reported at the end of the initial IPPWG mandate (October 2017), with the objective to showcase impact.

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